

Message Text

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AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY SEOUL

AMEMBASSY STOCKHOLM

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C O N F I D E N T I A L TOKYO 16153

PASS TREASURY, CEA AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN JA

SUBJ: FUTURE GOJ ECONOMIC POLICY

SUMMARY: PM MIKI ESTABLISHING A MINISTERIAL COORDINATING
COUNCIL FOR ECONOMIC POLICY TO BE HEADED BY TAKEO FUKUDA
NOW DEPUTY PRIME MINISTER AND DIRECTOR GENERAL OF ECONOMIC
PLANNING AGENCY. FUKUDA, WELL-KNOWN FOR HIS CONSERVATIVE
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ECONOMIC VIEWS AND INITIATOR CURRENT STRONG ANTI-INFLATIONARY

POLICY WHILE FINANCE MINISTER A YEAR AGO, IS EXPECTED TO PRESS FOR CONTINUATION OF GOJ ECONOMIC RESTRAINT POLICY THROUGHOUT JFY 1975. END SUMMARY.

BEGIN UNCLASSIFIED.

1. PM MIKI ANNOUNCED DEC 10 ESTABLISHMENT OF A MINISTERIAL COORDINATING COUNCIL FOR ECONOMIC POLICY (CEP) TO DECIDE FUTURE ECONOMIC POLICY OF THE GOVERNMENT. CEP'S MOST URGENT TASK IS TO OVERCOME INFLATION AND STABILIZE PRICES. MIKI SAID "I BELIEVE IT IS NECESSARY TO SEEK THE PEOPLE'S UNDERSTANDING FOR THE HARD REALITIES FACING THE NATION'S ECONOMY AND FOR THE GOVERNMENT'S ECONOMIC POLICY." THE COUNCIL IS LIKELY TO CONSIST OF MINISTERS FOR: EPA, FINANCE, MITI, AGRICULTURE, CONSTRUCTION AND LABOR. PREVIOUSLY MINISTERS RESPONSIBLE FOR ECONOMIC POLICY- MAKING MET INFORMALLY FOR DISCUSSIONS FOLLOWING REGULAR CABINET MEETINGS. THIS HAS NOW BEEN GIVEN MORE FORMAL STATUS BY PM.

2. FUKUDA (WHO IS DEPUTY PM AND DIRECTOR GENERAL OF EPA) WILL CHAIR THE NEW COUNCIL. HE SAID THE NEW COUNCIL WAS "DESIGNED TO PROVIDE A FORUM FOR FREE DISCUSSIONS AT THE MINISTERIAL LEVEL IN ORDER TO COORDINATE THE GOVERNMENT'S ECONOMIC POLICIES." CHIEF CABINET SECRETARY IDE SAID AT PRESS CONFERENCE COUNCIL WAS TO "SET BASIC POLICIES OF ECONOMIC MANAGEMENT UNDER THE LEADERSHIP OF CABINET MINISTERS (IN CHARGE OF ECONOMIC AFFAIRS)."

3. AS RESULT OF CHANGES IN GOVERNMENT AND RECONSIDERATION OF FUTURE ECONOMIC POLICY THERE HAS BEEN DELAY IN FINALIZING NEXT YEAR'S BUDGET AND THE GOVERNMENT'S ECONOMIC STRATEGY. ACCORDING TO PRESENT TIMETABLE, MOF DRAFT BUDGET WILL BE PRESENTED TO CABINET FOR ITS APPROVAL ON JAN 4 AND PRESENTED TO DIET ON JAN 10.

END UNCLASSIFIED.

4. FUKUDA WAS PRIMARILY RESPONSIBLE FOR SHIFT TO CURRENT STRONG ANTI-INFLATIONARY POLICY. FUKUDA TOLD PRESS CONFIDENTIAL

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HE FAVORS TIGHT BUDGET FOR JFY 1975 AS WELL AS KEEPING CONSUMER DEMAND AT LOW LEVEL. THIS WOULD, HOWEVER, PERMIT SOME EASING IN MONETARY POLICY SO AS TO REDUCE THE CURRENT PRESSURES ON BUSINESS. FUKUDA REPORTEDLY HAS NO PLAN TO LOWER DISCOUNT RATE AT PRESENT TIME.

5. SENIOR EPA OFFICIALS REPORT FUKUDA WILL USE HIS NEW POSITION IN ORDER TO PLAY DOMINANT ROLE IN GOVERNMENT'S

ECONOMIC POLICYMAKING. ALREADY HE HAS INSTRUCTED STAFF TO INITIATE WIDE-RANGING STUDIES ON A VARIETY OF TOPICS DEALING WITH BOTH SHORT-AND MEDIUM-TERM ECONOMIC MATTERS. ONE EPA OFFICIAL (MIYAZAKI) CONFIDED THAT HIS OWN ESTIMATE OF 5 PERCENT REAL GROWTH RATE IN JFY 1975 WAS CONSIDERED "EXCESSIVE" BY FUKUDA, GIVEN THE PRESENT COST/PUSH INFLATIONARY SITUATION. FUKUDA REPORTEDLY BELIEVES ONLY 2 PERCENT REAL GROWTH JFY 1975 WOULD BE MORE APPROPRIATE. WITH RESPECT TO THE MEDIUM TERM, FUKUDA HAS ABANDONED EVEN 5-7 PERCENT ANNUAL GROWTH RATE AS TOO HIGH, REPORTS ANOTHER OFFICIAL (AKABANE). REASSESSMENT BASED ON CONVICTION THAT JAPAN'S RAW MATERIAL IMPORT NEEDS WOULD STILL BE SO LARGE AS TO CAUSE FRICTION IN JAPAN'S INTERNATIONAL RELATIONS. FUKUDA NOW REQUESTING PLANNING BUREAU TO ASSESS MEDIUM-TERM PROSPECTS ON BASIS OF 4 PERCENT ANNUAL REAL GROWTH. FUKUDA EVIDENTLY REALIZES THAT MUCH LOWER RATE OF GROWTH CAN ONLY BE REALIZED IF THE PUBLIC ACCEPTS THE PROSPECT OF SMALLER ANNUAL INCREASES IN REAL INCOME AND SPENDING. OTHERWISE, THE PRESENT WAGE COST/PUSH INFLATION WOULD TEND TO PERPETUATE.

6. OTHER CABINET MINISTERS ARE ALSO GIVING PRESS INTER-VIEWS. MITI MINISTER TOSHIO KOMOTO REPORTEDLY FAVORS EASING TIGHT MONEY AND STIMULATING THE ECONOMY WHICH IS "NOW AT LOWEST EBB IN THE NATION'S ECONOMIC HISTORY. IT IS TIME TO CHANGE POLICY FROM TIGHT TO MILD."

7. ECONOMIC FORECAST OF FEDERATION OF ECONOMIC ORGANIZATIONS (KEIDANREN) FOR JFY 1975 FORESEES 3.4 PERCENT RISE IN REAL GNP.

8. CONSIDERABLE DIFFERENCES OF OPINION EXIST IN PRIVATE
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SECTOR AND GOVERNMENT ON APPROPRIATE POLICIES FOR THE YEAR AHEAD. THERE IS GENERAL AGREEMENT THAT NEXT YEAR'S WAGE DEMANDS MUST BE CONTAINED, HOPEFULLY TO NO MORE THAN 15 PERCENT INCREASE. THIS REQUIRES CONTINUED RESTRAINT OF FUTURE PRICE INCREASES SO THAT REAL WAGE WOULD NOT CONTINUE TO BE ERODED. IT IS TOO EARLY TO KNOW MINISTERIAL CONSENSUS OF WHAT POLICIES WILL BE ENACTED. FUKUDA'S CONSERVATIVE POLICIES, HOWEVER, ARE LIKELY TO DOMINATE GOJ APPROACH FOR COMING MONTHS AND PERHAPS FOR DURATION OF MIKI GOVERNMENT. EMBASSY ESTIMATES THAT, IF REAL GNP GROWTH JFY 1975 IS AS LOW AS 2 PERCENT FOLLOWING DECLINE OF PERHAPS 1.6 PERCENT IN JFY 1974, GNP LEVEL IN JFY 1975 WILL BE 1.2 PERCENT BELOW PREVIOUS PEAK (SEASONALLY ADJUSTED AT ANNUAL RATE) IN FOURTH QUARTER 1973. EVEN IF GROWTH RATE JFY 1975 IS AS HIGH AS 5 PER-

CENT, ANNUAL LEVEL WOULD BE NO MORE THAN 1.7 PERCENT
ABOVE THAT PEAK. IT APPEARS THAT THE JAPANESE ECONOMY
WILL BE OPERATING WELL BELOW ITS POTENTIAL CAPACITY
THROUGHOUT 1975.
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